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ANNUAL
REPORT 1977

STRATHEARN
HOUSE GROUP
LIMITED



Braemore Group
Cadillac Building Products

Financial Highlights

Year ended	December 31 1977	December 25 1976
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Continuing Operations:

Sales	<u>\$62,842,000</u>	<u>\$65,531,000</u>
Net Earnings (loss)	<u>294,000</u>	<u>(53,000)</u>
Earnings (loss) per share	<u>10¢</u>	<u>(2¢)</u>

Working Capital	\$ 5,389,000	\$ 6,111,000
Shareholders' Equity	\$ 6,077,000	\$ 7,208,000
Share Outstanding	2,912,883	2,912,883

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Strathearn House Group Limited
637 Lakeshore Boulevard West
Toronto, Ontario M5V 1A8

STRATHEARN
HOUSE GROUP
LIMITED

Interim Report

for the six months ended June 30th, 1977



INTERIM REPORT - 1st HALF 1977

STRATHEARN GROUP

For the six months ended June 30, 1977 sales amounted to \$29,100,000, compared with \$32,100,000 in the first half of 1976. Earnings were equivalent to 1 cent a share compared with 3 cents last year.

The results reflect the effects lower housing starts had on demand for building products and home furnishings. For the balance of the year it is expected that there will be a moderate improvement in sales and earnings.

August 19, 1977

W. H. SINGER
President

Consolidated Statement of Earnings

(Unaudited)

Sales	
Earnings from operations before depreciation and interest	
Depreciation	
Earnings before interest	
Interest	
Earnings before minority interest	
Minority interest	
Net earnings for the period	
Earnings per share	

FOR THE SIX MONTHS ENDED	JUNE 30	1977	1976
			(Thousands of Dollars)
	\$	\$	
	29,100	32,100	
	1,520	2,063	
	417	373	
	1,103	1,690	
	976	1,077	
	127	613	
	54	258	
	73	355	
	44	265	
	\$ 29	\$ 90	
	\$ 0.01	\$ 0.03	

Consolidated Statement of Changes in Financial Position

FOR THE SIX MONTHS ENDED JUNE 30

(Unaudited)

SOURCE OF FUNDS	1977	1976
Funds derived from Operations	\$ 29	\$ 90
Net earnings for the period	417	373
Depreciation	11	81
Deferred taxes	44	265
Minority interest	501	809
Increase in long term debt	709	83
Disposals of fixed assets	20	150
	1,230	1,042

EXPENDITURE OF FUNDS	1977	1976
Purchase of fixed assets	967	565
Reduction in long term debt	200	194
Increase in deferred charges	60	-
	1,227	759
WORKING CAPITAL	3	283
Increase in working capital	6,111	6,127
Working capital, beginning of period	\$6,114	\$6,410
Working capital, end of period		

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**STRATHEARN
HOUSE GROUP
LIMITED**

Interim Report

for the six months ended June 30th, 1976

INTERIM REPORT — 1st HALF 1976

STRATHEARN GROUP

For the first half of 1976 sales amounted to \$32,100,000, compared with \$22,200,000 in the same period of 1975, and earnings were equivalent to 3 cents a share, as opposed to a loss of 16 cents a share a year ago. The results include the Company's share of the earnings of its 58 per cent owned subsidiary, House of Braemore Furniture Limited, which had a profit of \$518,000 compared with a loss of \$192,000 in the first half of 1975.

In addition to the improvement in the furniture business there has been a gain in sales to the building industry.

It is expected that there will be further improvement in results for the balance of the year.

August 19, 1976.

W. SINGER,
President.

Consolidated Statement of Earnings

FOR THE SIX MONTHS ENDED JUNE 30		
1976	1975	(Thousands of Dollars)
\$ 32,100	\$ 22,200	
2,063	247	
373	355	
1,690	(108)	
1,077	874	
613	(982)	
258	(412)	
355	(570)	
265	(93)	
90	(477)	
\$ 0.03	\$ (0.16)	

Consolidated Statement of Changes in Financial Position

FOR THE SIX MONTHS ENDED JUNE 30

(Unaudited)

1976		1975		
\$	(100)	\$	(100)	(Thousands of Dollars)
83	263	83	263	
150		150		
\$ 809	\$ (363)	\$ 809	\$ (363)	
265	(93)	265	(93)	
81	(148)	81	(148)	
373	355	373	355	
\$ 90	\$ (477)	\$ 90	\$ (477)	
Net earnings for the period				
Depreciation and amortization				
Deferred taxes				
Minority interest				
Disposals of fixed assets				
Increase in long term debt				
Funds derived from (applied to) Operations				
SOURCE OF FUNDS:				
Purchase of fixed assets				
Reduction in long term debt				
EXPENDITURE OF FUNDS:				
Increase (decrease) in working capital				
Working capital at beginning of period				
Working capital at end of period				
\$ 6,410	\$ 7,179	\$ 6,410	\$ 7,179	

To our Shareholders

Despite a decline in consolidated sales, earnings improved during 1977, reflecting an increase in the profit of House of Braemore Furniture Limited, a turnaround in building products and the continuing profitability of the plastics operation.

Results include Braemore sales from continuing operations of \$42 million compared with \$45 million in 1976 and the Company's 58 percent share of Braemore earnings of \$616,000, an increase from \$461,000 in the previous year.

At the end of the fiscal year Braemore closed down a wholly-owned subsidiary whose principal products were television and stereo cabinets. The domestic market for those products has continued to be significantly eroded by the import of sets manufactured abroad.

The Company recently signed an agreement to purchase for cash the Mapac plastic packaging division of Hercules Canada Limited. We are confident that this acquisition will make a significant contribution to the sales and profits of our plastics operation.

The Company has granted an option expiring February 28, 1979 to our building products general manager to purchase that operation. We believe that this transaction would be advantageous to Strathearn in allowing the Company to concentrate its financial and management resources on other aspects of the Company's continuing business.

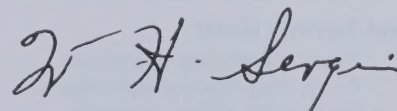
Outlook

Preliminary results for 1978 to date show an improvement over the same period in 1977 and, despite the continued sluggishness of the economy, we have some degree of confidence that this trend will continue.

The reduction or elimination of provincial sales tax is expected to have a positive impact on sales of home furnishings.

Appreciation

On behalf of the Board of Directors, I extend thanks to all of our employees for their dedication and loyalty.



President and
Chief Executive Officer

Toronto
April 26, 1978

Consolidated Statement of Earnings

Year Ended December 31, 1977

	1977 (\$000)	1976 (\$000)
Sales	\$62,842	\$65,531
Expenses		
Cost of sales and expenses	59,429	62,409
Depreciation and amortization	770	690
Interest on long-term debt	667	690
Interest on current debt	1,265	1,460
	62,131	65,249
Earnings from continuing operations before income taxes	711	282
Income taxes (note 1d)	143	90
	568	192
Minority interest in subsidiaries' earnings	274	245
Net earnings (loss) from continuing operations	294	(53)
Discontinued operations (note 2) (including a write-off of goodwill of \$1,117,000)	(825)	79
Goodwill written-off	(600)	—
	(1,425)	79
Net earnings (loss)	(\$ 1,131)	\$ 26
Earnings per share (note 6)		
From continuing operations	\$ 0.10	(\$ 0.02)
Discontinued operations and goodwill write-off	(0.49)	0.03
Net earnings (loss) per share	(\$ 0.39)	\$ 0.01

Consolidated Statement of Retained Earnings

Year Ended December 31, 1977

	1977 (\$000)	1976 (\$000)
Net Earnings (Loss)		
From continuing operations	\$ 294	(\$ 53)
From discontinued operations	(825)	79
From write-off of goodwill	(600)	—
	(1,131)	26
Balance, beginning of year	1,426	1,400
Balance, end of year	\$ 295	\$ 1,426

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1977

	1977 (\$000)	1976 (\$000)
Working capital provided by		
Net earnings (loss) from continuing operations	\$ 294	(\$ 53)
Net earnings (loss) of discontinued operations	(68)	79
Cost of plant shutdown	(109)	—
Depreciation and amortization	870	800
Deferred income taxes	(318)	157
Deferred charges	16	47
Minority interest in net earnings	145	302
Funds from operations	830	1,332
Increase in long-term debt	983	329
	<u>1,813</u>	<u>1,661</u>
Working capital used for		
Purchase of fixed assets (net)	1,528	849
Decrease in long-term debt	953	828
Deferred charges	54	—
	<u>2,535</u>	<u>1,677</u>
Decrease in Working Capital	(722)	(16)
Working capital, beginning of year	6,111	6,127
Working capital, end of year	\$ 5,389	\$ 6,111

Consolidated Balance Sheet

AS AT DECEMBER 31, 1977

Assets	1977 (\$000)	1976 (\$000)
Current		
Accounts receivable	\$15,415	\$15,917
Income taxes refundable	217	122
Inventories (note 1b)	13,557	14,553
Prepaid expenses	432	457
	<u>29,621</u>	<u>31,049</u>
Fixed		
Land	471	473
Buildings	2,207	2,182
Equipment and leasehold improvements	11,103	9,772
Total, at cost	13,781	12,427
Accumulated depreciation (note 1c)	7,387	6,692
	<u>6,394</u>	<u>5,735</u>
Other		
Deferred charges	77	39
Deferred income taxes (note 1d)	557	239
Goodwill (note 1e)	3,605	5,323
	<u>4,239</u>	<u>5,601</u>
	<u>\$40,254</u>	<u>\$42,385</u>

Auditors' Report

To the shareholders,
Strathearn House Group Limited.

We have examined the consolidated balance sheet of Strathearn House Group Limited as at December 31, 1977, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 10, 1978

Wm. Eisenberg & Co.
Chartered Accountants

Liabilities**Current**

	1977 (\$000)	1976 (\$000)
Bank indebtedness (note 3)	\$ 3,075	\$ 5,519
Bankers' acceptances (note 3)	10,000	10,000
Accounts payable and accrued charges.	9,958	7,589
Mortgage advances.	296	1,013
Current portion of long-term debt (note 4).	903	817
	<u>24,232</u>	<u>24,938</u>

Long-term debt (note 4)

Secured	2,044	1,814
Unsecured	4,577	4,777
	<u>6,621</u>	<u>6,591</u>

Minority interest

<u>\$ 3,324</u>	<u>\$ 3,648</u>
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Shareholders' Equity**Share capital**

Authorized
5,000,000 Class A shares, fully participating, non-voting, without par value
1,000,000 Class B shares, fully participating, voting, without par value,
each convertible into a class A share at the holder's option
100 Common shares, without par value

Issued (note 5)

2,518,600 Class A shares.	4,999	4,995
394,283 Class B shares.	783	787
	<u>5,782</u>	<u>5,782</u>

Retained earnings

<u>295</u>	<u>1,426</u>
<u>6,077</u>	<u>7,208</u>
<u>\$40,254</u>	<u>\$42,385</u>

ON BEHALF OF THE BOARD

W. H. Singer, *Director*

J. F. Kay, *Director*

Notes

to Consolidated Financial Statements
as at December 31, 1977

1. Accounting policies

a. Basis of consolidation

The consolidated financial statements include the accounts of the following subsidiaries:

Wholly-owned

Ackripak Limited
Cadillac Building Products Co. Ltd.
Cadnor Development Corporation
Macad Construction Limited

Partially-owned

House of Braemore Furniture Limited (58% owned) and its subsidiaries

Wholly-owned by House of Braemore Furniture Limited

The Hespeler Furniture Company Limited
(including its division, American Frame)
Singer Lighting Co. Ltd.
Troister & Company Limited
Emanuel Products Limited (note 2)
Roti Wood Products (Fergus) Limited
COSF Products Limited (including its division, Standard Upholstery Company)
Willison Wood Products Company Limited

Partially-owned by House of Braemore Furniture Limited

Thompson-Heyland Limited (60% owned - note 11)
Braemore Convertibles Limited (51% owned)

All significant inter-company loans and transactions have been eliminated on consolidation. For comparative purposes, prior year's amounts are restated to conform with current year presentation.

b. Inventories

Inventories are valued at the lower of cost (first-in, first-out basis) and net realizable value, and consist of:

	1977	1976
	(\$,000)	(\$,000)
Raw materials	\$ 6,628	\$ 6,068
Work-in-progress	828	1,418
Finished goods	6,101	7,067
	<u>\$13,557</u>	<u>\$14,553</u>

c. Depreciation

Depreciation is provided on a straight-line basis at rates which are designed to write off the assets over their estimated useful lives as follows:

Buildings	- 2½%
Equipment and leasehold improvements	- 10% - 33½%
Automotive	- 25%

d. Deferred income taxes

	1977	1976
	(\$,000)	(\$,000)
i. Income taxes provided in respect of timing differences between accounting and taxable income	\$ 101	\$ 124
ii. Income tax reductions which are expected to be realized in future years by carrying forward losses of subsidiaries. In the view of management these reductions are virtually certain to be realized.	(658)	(363)
	<u>(\$ 557)</u>	<u>(\$ 239)</u>

Inventory allowances are permanent differences and result in a reduced effective tax rate commencing with 1977.

e. Goodwill

Goodwill represents the excess of the cost of subsidiaries over their net tangible assets at the date of acquisition. Goodwill acquired subsequent to April 1, 1974 is being amortized on a straight-line basis over 40 years (\$675 per annum). Goodwill acquired prior to 1974 is not being amortized.

A reduction in value of goodwill of two subsidiaries has been recognized as a charge against income in the accompanying statement of earnings.

2. Discontinued operations

During the year the operations of Emanuel Products Limited were discontinued. The effect on the financial statements of this shut-down is summarized as follows:

	1977	1976
	(\$,000)	(\$,000)
Earnings (Loss) from discontinued operations before income taxes	(221)	234
Income taxes	(103)	98
Earnings (Loss) from discontinued operations	(118)	136
Loss on shutdown:		
Shutdown costs	\$ 325	
Less income taxes recovered	137	
	<u>188</u>	
Write-off of goodwill	\$ 1,117	(1,305)
	(1,423)	136
Less minority interest	(598)	57
Net earnings (loss) from discontinued operations	<u>(\$ 825)</u>	<u>\$ 79</u>

3. Bank indebtedness

The bank indebtedness and bankers' acceptances are secured by a pledge of book debts and inventories.

4. Long-term debt

	1977	1976
	(\$,000)	(\$,000)
Secured		
Promissory notes		
8% due March, 1979, secured by mortgage	\$ 462	\$ 498
Finance Company notes, secured by chattel mortgages	1,106	596
Non-interest bearing, due December 31, 1976	—	83
Term bank loan, prime plus 2%, repayable \$300,000 per annum	600	900
Term bank loan, prime plus 1½%, repayable \$50,000 per annum	250	—
10.7% Federal Business Development Bank Loan, due April, 1979, secured by mortgages	48	84
10% mortgage payable, due October, 1982	12	13
Leases and mortgages payable	237	194
Other	32	63
	<u>2,747</u>	<u>2,431</u>
Due within one year	703	617
	<u>2,044</u>	<u>1,814</u>
Unsecured		
Promissory notes		
7% due February, 1983	3,048	3,248
Prime plus 1%, due April, 1979 (note 6)		
— Directors and officers	1,225	1,225
— Others	275	275
8½%, due August, 1981	229	229
	<u>4,777</u>	<u>4,977</u>
Due within one year	200	200
	<u>4,577</u>	<u>4,777</u>
	<u>6,621</u>	<u>\$ 6,591</u>

5. Share capital

Class B shares are convertible to class A shares on a one-for-one basis. During the year, 2,130 class B shares were converted.

6. Earnings per share

Subscription warrants attached to the promissory notes due April, 1979 aggregating \$1,500,000 (note 4) which were issued by Braemore are outstanding and entitle the holders to subscribe for a total of 75,000 treasury shares of Braemore. The dilutive effect on earnings would be insignificant.

7. Lease commitments

Rentals paid on property leases for the year ending December 31, 1977 amounted to \$796,000. Aggregate minimum rentals in subsequent years on long-term property leases are as follows:

	\$,000
Year ended December 30, 1978	\$ 775
The next four years	1,698
1983 to 1997	1,767
	<u>\$4,240</u>

8. Remuneration of directors and senior officers

The aggregate direct remuneration paid or payable by the Company and its subsidiaries to the directors and senior officers of the Company during the current year amounted to \$213,000 (1976 — \$215,000).

9. Pension benefits

The Company is obligated under an agreement with a retired director and senior officer of Braemore for the payment of \$35,000 per annum to 1983. This amount will be charged to annual earnings over the term of the agreement.

10. Anti-inflation legislation

The Companies are subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations.

11. Subsequent event

Effective January 1978 the Company acquired the remaining 40% minority interest in the common shares of Thompson-Heyland Limited for a sum of \$20,000. The shares acquired have a book value of \$196,000.

12. Other

The Company has granted an option to W. Glied to acquire the building products operations at a price which approximates the carrying value of these operations.

Product Lines

Furniture

The Braemore Group, which is 58 percent owned, is an integrated manufacturer offering a wide selection of home furnishings.

Building Products

Cadillac Building Products is a major manufacturer and supplier of a broad range of products for use in house construction. In addition the company operates a retail outlet.

Plastics Packaging

Ackripak Limited, a wholly-owned subsidiary, is a manufacturer of rigid plastic containers used for packaging prepared food by supermarkets and fast food outlets.

Directors

J. F. Kay
Chairman of the Board of Dylex Limited

I. A. Posluns
Executive Vice-President of Dylex Limited

J. I. Posluns
Executive Vice-President & Treasurer of Dylex Limited

***W. Posluns**
President of Dylex Limited

***S. M. Sigel**
Partner, Messrs. Stitt, Baker & McKenzie, Solicitors

W. H. Singer
President of Strathearn House Group Limited

***A. H. Zaldin, Q.C.**
Senior Partner, Messrs. Zaldin, Fine and Siskind, Solicitors

** Members of the audit committee*

Officers

W. Posluns
Chairman of the Board

W. H. Singer
President and Chief Executive Officer

J. F. Kay
Secretary & Treasurer

Transfer Agent and Registrar
National Trust Company, Limited

Auditors
Wm. Eisenberg & Co., Chartered Accountants

Listed On
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Montreal Stock Exchange

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